

NCUA Chairman Johnson and national leaders address financial empowerment in Atlanta

In recognition of Financial Literacy Month, NCUA Chairman JoAnn Johnson participated in a "Day of Hope" with government and national leaders involved in civil rights and economic empowerment April 12 in Atlanta.

In addition to participating in the financial teaching marathon at Jean Childs Young Middle School, Chairman Johnson served as a panelist on "From Civil Rights to Silver Rights: The Dawning of a New Movement in the 21st Century America" at Georgia State University with United States Securities and Exchange Commissioner Paul S. Atkins; Federal Deposit Insurance Corporation (FDIC) Chairman Donald E. Powell; President of The First American Corporation Craig DeRoy; and Chief Executive Officer of ING U.S.

Financial Services Thomas J. McInerney to discuss financial literacy and economic empowerment. The panel was moderated by Ed Gordon, host of News and Notes with Ed Gordon on National Public Radio.

"I was extremely pleased to join with so many pioneers who truly have been in the trenches of empowerment," said NCUA Chairman Johnson. "All financial institutions should be at the table, working together to address the critical issue of financial literacy in America. As President Bush has said, the real measure of compassion is more than good intentions, it is good results. Financial education is part of the mission of so many credit unions, and I congratulate them for their fervor and progress in their communities."

A Day of Hope, hosted by Operation Hope, Inc., a not-for-profit financial education and economic empowerment organization, featured leaders including Ambassador Andrew Young, chairman of Goodworks International; John Bryant, founder, chairman and chief executive officer of Operation Hope, Inc.; former HUD Secretary Jack Kemp; Dr. Dorothy I. Height, pioneering civil rights leader and chairwoman emeritus of the National Council of Negro Women; and other high ranking federal and state officials announcing a citywide commitment to educate every middle and high school student in financial literacy in the Atlanta Public School District.

continued on page 2

"From Civil Rights to Silver Rights"



Atlanta, Ga., April 12, 2005 – NCUA Chairman Johnson addresses attendees as part of the "From Civil Rights to Silver Rights: The Dawning of a New Movement in 21st Century America" panel, including (left to right) John Bryant, founder, chairman and CEO of Operation Hope, Inc., Ambassador Andrew Young, and Thomas J. McInerney, CEO of ING U.S. Financial Services.

HIGHLIGHTS

News briefs	2
Johnson testifies	2
Board actions	3
Board approves pilot	3
Credit Union Miracle Day	4
Johnson highlights CUs	5
DeSarno is Inspector General	6
Smith joins External Affairs	6
Lorena Mathews dies	6
Corporate CU policies issued	7
About Investments	8

News briefs

TAG Guidance – NCUA *Letter to Federally Insured Credit Unions 05-CU-05* offers specifics and guidelines for participating in the 2005 technical assistance grant (TAG) program designed to support initiatives at credit unions that serve low-income communities. Find TAG guidelines on NCUA's website under "Programs" at www.ncua.gov/CreditUnionDevelopment/Index.htm.

Statement issued on money service businesses – The Financial Crimes Enforcement Network (FinCEN) and federal financial regulators issued a statement March 30 clarifying financial institution obligations under the "Bank Secrecy Act" when opening and maintaining accounts for money services businesses (MSBs), such as check cashers and money transmitters. The joint statement is available on NCUA's website at <http://www.ncua.gov/news/pressreleases/2005/NR05-0330.htm>.

June Board meeting rescheduled – NCUA's Board will meet Thursday, June 30th

- 9:00 a.m. in closed session
- 10:00 a.m. in open session

NCUA News

National Credit Union Administration

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

JoAnn Johnson, Chairman
Deborah Matz, Board Member

Information about NCUA and its services may be secured by contacting at 703-518-6330.

External Affairs
Cherie Umbel, *Editor*
Barbara Walker, *Graphics*

National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428



Atlanta, Ga., April 12, 2005 – Federal and state officials who participated in the financial teaching marathon at Jean Childs Young Middle School included Georgia Director of Financial Institutions David Sorrell, NCUA Chairman JoAnn Johnson, FDIC Chairman Donald Powell, and Securities and Exchange Commissioner Paul Atkins.

Financial Empowerment

continued from page 1

"Education is the ultimate poverty eradication tool, and financial literacy is one of the most important issues facing our nation today," said Bryant, who founded the national self-help organization working to bring economic self-sufficiency to inner-city residents and low-wealth communities. "And credit unions are a vehicle for change," he said.

Operation Hope's financial literacy initiative was established in 1996 to teach children the basics of managing their financial future and surviving in a global economy. It is a national year round urban delivery platform for economic literacy, operating in eight states and the District of Columbia.

"This is an idea whose time has come," said Dr. Height, "Wealth is more than a big salary. We need to get over our self-consciousness and be more effective in what we do."

According to the comprehensive report issued by Operation Hope, "The State of Financial Literacy of Young African-American Adults in America," indicators include higher relative scores in questions related to spending rather than

saving as well as higher use of credit and debit cards and lower use of saving and investing vehicles."

Also, the JumpStart Coalition recently released a survey of more than 4,000 high school students in 33 states, which measured 12th graders' level of knowledge of personal finance basics. While the study found there were modest gains in financial literacy, 65.5 percent of students failed the exam and only 6.1 percent scored a "C" or better.



Atlanta, Ga., April 12, 2005 – Chairman JoAnn Johnson and Operation Hope's John Bryant greet Dorothy Height, a 2004 recipient of the Congressional Gold Medal presented by President George W. Bush for Dr. Height's heroic work in the civil rights movement.

Johnson testifies on CU net worth bill

NCUA Chairman JoAnn Johnson testified April 13, 2005, on H.R. 1042, the "Net Worth Amendment for Credit Unions Act," before the U.S. House

Subcommittee on Financial Institutions and Consumer Credit.

H.R. 1042 was introduced by Subcommittee Chairman Spencer Bachus and Ranking Member Bernard Sanders (VT) and cosponsored by 16 Members of the Committee. The bill is designed to

continued on page 5

MBL revision proposal issued

The NCUA Board issued a proposal to revise the Part 723 member business loans (MBL) rule to clarify minimum capital requirements a federally insured corporate credit union must meet to make unsecured MBLs. The proposal also revised the definition of “construction or development loans” and “net worth,” and solicited comment on how to enable credit unions to participate more fully in government guaranteed loan programs.

The proposal recommends the MBL rule note the capital requirements for federally insured corporate credit unions is 4 percent, or a different minimum under special circumstances, as required by Section 704.3(d), (e) of *NCUA Rules and Regulations*.

As proposed, the definition of “construction or development loans” is broadened and the definition of “net worth” is made more consistent with how that term is defined elsewhere in NCUA’s rules.

Share Insurance Fund quarterly report

The National Credit Union Share Insurance Fund (NCUSIF) equity ratio was 1.29 percent at March 31, 2005, based on December 31, 2004, insured shares of \$500 billion.

During the first three months of 2005, NCUSIF gross income was \$35.4 million, net income was \$9.8 million, operating expense was \$18.1 million, and \$7.5 million was added to the provision for credit union losses (reserve) account. Reserves totaled \$73.5 million at the end of the first quarter, with \$23 million allocated for specific problem case credit unions.

Federally insured credit unions are currently submitting \$109.5 million to the NCUSIF for their 1 percent deposit adjustments based on year-end insured shares. In March, NCUSIF refunded \$51 million to credit unions with declines in insured shares in 2004.

Four federally insured credit unions failed during the first three months of 2005. The number of problem code 4 and 5 credit unions was 267, representing 0.90 percent of total insured shares at March 31, 2005. Of these institutions, 195 are under \$10 million in assets.

Guidance issued to safeguard member records

The NCUA Board finalized an amendment to rule Part 748, Security Programs, and issued guidance that may require some credit unions to modify existing administrative, technical and physical procedures for safeguarding member information.

Revised Part 748 requires federally insured credit union security programs to contain an element that responds to incidents of unauthorized access to member information. Developed with fellow federal financial regulators, the guidelines will assist credit unions craft or modify response procedures to address the increased number of attempts to breach member information systems, including member notices. The amendment requires credit unions to include response elements within security programs to mitigate member risk due to loss or inconvenience arising from unauthorized access to member account information, including identity theft.

Votes are unanimous unless indicated.

Board approves pilot investment program to enhance MBLs

The NCUA Board approved a third-party provider pilot investment program March 17 designed to enhance member business lending opportunities for America’s credit unions.

The pilot program was developed by CUNA Mutual Group’s CU System Funds, a private investment fund, to purchase loans from credit unions and sell shares in the fund as investments to interested credit unions. The approval permits credit unions to purchase shares in CUNA Mutual Group’s member business loan funds.

“CUNA Mutual’s pilot program is an innovative approach to improve liquidity for member business loans and allow credit unions to better serve their member business lending needs,” said NCUA Chairman JoAnn Johnson. “This program will allow originating credit unions selling their member business

loans to the funds to lower their balance sheet risk by reducing credit exposure. We look forward to reviewing the progress of the program and how credit unions benefit from this secondary market alternative.”

The aggregate \$1 billion investment vehicle creates another market for loan participations. A credit union may purchase a single fund share and obtain exposure to a diversified pool of member business loans. Such diversification would not be available with direct purchase of a single loan participation.

The Board established a number of regulatory boundaries for this pilot program, which are available on the Internet at <http://www.ncua.gov/ALManagementInvest/InvPilot.htm>. The standards are designed to ensure diversification and limit risk exposure.

NCUA submits PCA reform proposal to Congress

NCUA delivered its “Prompt Corrective Action Proposal for Reform” report to Congress April 4, 2005. It recommends statutory changes and includes a proposal detailing how NCUA would design a new risk-based system for federally insured credit unions. The reform prompt corrective action (PCA) proposal would result in net worth requirements that more precisely reflect credit union risk while providing an appropriate safeguard for the National Credit Union Share Insurance Fund (NCUSIF).

“I am pleased that NCUA has provided Congress with a comprehensive prompt corrective action reform proposal for consideration as regulatory improvements are pursued for the nation’s credit unions,” said Chairman Johnson.

continued on page 8



Who and What: Chairman JoAnn Johnson will address the CUES Public Policy Institute.

When: Thursday, May 5, 2005

Where: Washington, D.C.

Why: Will address regulatory issues affecting credit unions.

Contact: Linda Queen at 703 518-6309 or lqueen@ncua.gov

Who and What: Chairman JoAnn Johnson will address the ITCUA Strategic Summit on the Future of Financial Services.

When: Friday, May 13, 2005

Where: Palace Hotel, San Francisco, Calif.

Why: Will share her perspective on the future of financial services.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov

Who and What: Chairman JoAnn Johnson will address the CUNA CFO Council Conference.

When: Monday, May 16, 2005

Where: Capital Hilton, Washington, D.C.

Why: Will discuss regulatory issues affecting credit union operations.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov

Who and What: Chairman JoAnn Johnson will address the SE Corporate Annual and Economic Forum.

When: Friday, May 20, 2005

Where: Amelia Island Plantation, Fla.

Why: Will discuss NCUA's regulatory agenda.

Contact: Linda Queen at 703-518-6309 or lqueen@ncua.gov

Who and What: Board Member Debbie Matz will address the New York State Credit Union League's 85th Annual Meeting.

When: Friday, May 20, 2005

Where: New York, N.Y.

Why: Will share her outlook on principles that could shape the future of credit unions.

Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov

Who and What: Board Member Debbie Matz will address the Kentucky Credit Union League's NCUA Board reception.

When: Tuesday, May 24, 2005

Where: Crystal Gateway Marriott, Alexandria, Va.

Why: Will share her insight about the future of the credit union movement.

Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov

Credit Union Miracle Day at Children's Medical Center

Chairman Johnson and Board Member Matz were Honorary Co-Chairs of the Credit Union Cherry Blossom 10-Mile Run, April 3, 2005, which raised \$413,000 benefiting the Children's Miracle Network in Washington, D.C.



Washington, D.C., March 31, 2005 – Chairman JoAnn Johnson works on a craft project with a young patient at Children's National Medical Center during Credit Union Miracle Day, Inc., a partnership of over 85 credit unions and partner organizations supporting the international Children's Miracle Network.



Washington, D.C., March 31, 2005 – Board Member Deborah Matz; Mike Vadala, president/CEO, Summit Federal Credit Union; and several patients enjoy craft time during the Credit Union Miracle Day event at the Children's National Medical Center.

Johnson highlights credit unions role in an “ownership society”

America’s credit unions have a pivotal role in an “ownership society,” as not-for-profit financial cooperatives providing member entrepreneurs with access to affordable credit and capital to grow and expand their small businesses, according to NCUA Chairman JoAnn Johnson.

Chairman Johnson visited Bethex Federal Credit Union in a predominantly Hispanic underserved community of Bronx, New York, April 7. During the visit, the Chairman, and Bethex Federal Credit Union CEO Joy Cousminer toured several Bethex members’ small businesses. Small businesses visits included:

- Irving Enterprise, (auto insurance agency)
- RC Miscellaneous Corp., (laundromat and international telephone center for customers to call their home countries)
- Burnside Beauty & Nail Salon,
- Miami Deli, Inc. (groceries & deli)

“The visits demonstrated to me the tremendous difference credit unions are making in communities where access to traditional financial services is limited,” said Chairman Johnson.

“Bethex’s record of success in serving member business lending is enlightening, and we need to encourage credit unions to make their communities a better place by supporting their members’ entrepreneurial spirit. Credit unions are indeed a vital element in making the ownership society a reality for millions of Americans,” Johnson said.

“Member business loans may be our most important product,” said Joy Cousminer, who leads \$9 million Bethex FCU. “Healthy businesses are what stabilize and build a community. In our area most businesses don’t have a track record, or have a shaky one at best. Banks won’t take a chance, so it’s the loan shark or Bethex.”

Since joining the NCUA Board, Chairman Johnson has made member business lending a key priority for her regulatory agenda. The Chairman’s leadership on member business lending created a regulatory environment at NCUA that has empowered credit unions with safe, sound flexibility to serve their members while dismantling unnecessary, burdensome rules.



Bronx, N.Y., April 7, 2005 – Bethex Federal Credit Union Chief Executive Officer Joy Cousminer and NCUA Chairman JoAnn Johnson discuss the challenges of access to capital and credit for small businesses.

“While we have made great progress with member business lending regulations, as we move forward as an agency I will continue to pursue opportunities to enhance NCUA’s member business lending regulations. We need to make sure that credit unions can answer the call to serve their members complete financial needs, especially when members often have no alternative financial partner to start a new business, expand, or create new jobs for their local community,” Johnson said.

Johnson testifies

continued from page 2

rectify the unintended consequences in credit union mergers of an accounting rule proposed by the Financial Accounting Standards Board (FASB) expected to become effective early next year.

“Without the changes proposed in H.R. 1042,” Chairman Johnson testified, “only ‘retained earnings’ of the continuing credit union will count as net worth after a merger. This would seriously reduce the post-merger net worth ratio of a federally insured credit union. This result would discourage voluntary mergers and on occasion make NCUA assisted mergers more difficult and costly to the National Credit Union Share Insurance Fund (NCUSIF).”

The testimony is available online at www.ncua.gov.



Bronx, N.Y., April 7, 2005 – NCUA Chairman Johnson pictured with Bethex Federal Credit Union staff and employees of the Miami Deli, a small Bronx business that has expanded thanks to credit access provided by the Bethex Federal Credit Union.



William DeSarno

DeSarno named Inspector General

The NCUA Board has selected William A. DeSarno to serve as NCUA Inspector General. Mr. DeSarno has been acting inspector general since December 2004.

“Bill DeSarno is a dedicated, veteran federal government employee who has served with integrity and I am pleased to welcome him as NCUA’s new Inspector General,” said NCUA Chairman JoAnn Johnson. “His experience and knowledge will be an asset in our mission of safety and soundness and the wise use of agency resources.”

Inspector General DeSarno is responsible for the strategic planning of audits, inspections and other reviews conducted by the Office of Inspector General (OIG). Also, he provides direction to determine the scope of OIG investigations within strategic and operating plans.

DeSarno began his NCUA career in 1997 as assistant inspector general for audits and he was named deputy inspector general in 2001. DeSarno distinguished himself by establishing OIG’s first strategic plan and has been involved in all aspects of that office, including planning, budget, staffing and structure. He has extensive work experience within NCUA’s Inspector General’s Office and also has a clear understanding and

working knowledge of NCUA’s operation and mission.

Prior to NCUA, DeSarno served seven years with the Treasury Department’s OIG and 18 years with the General Accounting Office (GAO). He has over 14 years management experience in an OIG office and over 20 years experience supervising auditors. His government career began with the Army serving in Vietnam, and his total government career spans over 36 years.

Mr. DeSarno holds a B.A. in accounting from the University of Scranton and a M.B.A. from George Washington University. He is a member of the Institute of Internal Auditors and is a “Certified Inspector General” by the Association of Inspectors General.



Rori Smith

Rori Smith joins External Affairs

Rori Patrise Smith has been appointed Associate Director of External Affairs after serving most recently as senior communications assistant for the 55th Presidential Inaugural Committee. Before joining the committee, she served as spokesperson for the 2004 Republican National Convention in New York.

“Rori Smith is an excellent addition to our external affairs team,” said NCUA Chairman JoAnn Johnson. “Rori will be instrumental in furthering the agency’s outreach, especially our financial education initiatives.”

Special Assistant to the Chairman and Director of External Affairs Nicholas Owens said Smith’s role will “enhance the NCUA’s Access Across America initiative and advance the overall public affairs agenda for the agency.”

Before joining the Republican National Convention as spokesperson, Smith served as the press secretary and outreach coordinator for Florida Representative Katherine Harris’ congressional campaign. She has served as spokesperson and project manager with Delta Air Lines and as an anchor with a CBS television affiliate in Baton Rouge, Louisiana. Smith is a graduate of Louisiana State University.



1972 – Lorena Matthews is sworn-in as NCUA Deputy Administrator.

Former Deputy NCUA Administrator Lorena Matthews dies

Lorena Causey Matthews, a former NCUA deputy administrator and advisory board member, passed away March 21 at 92 in Ellisville, Miss. Mrs. Matthews was NCUA’s deputy administrator during the 1970’s serving with Administrators’ General Herman Nickerson, Jr., C. Austin Montgomery and Lawrence Connell. Before named deputy administrator, Matthews was the only female on NCUA’s six-person advisory board. Mrs. Matthews was actively involved in the credit union movement for decades.

Matz outlines CU trends

Opening a fresh dialog with state regulators, NCUA Board Member Debbie Matz shared her observations about current threats to credit unions and suggested that regulators can work together to help credit unions grow stronger in the future.

“Federal and state regulators have done an excellent job of protecting safety and soundness,” Matz said in her speech to the 27th Annual State Regulators’ Conference hosted by NCUA for regulatory members of the National Association of State Credit Union Supervisors (NASCUS). “As we look ahead, now is a good time to look at long-term threats to safety and soundness and explore what we as regulators can do to protect the future of credit unions.”

Matz observed that credit unions’ future may be threatened by several current trends:

- “Credit unions are not increasing ethnic diversity or the age diversity of their members. America’s fastest-growing ethnic groups are under-represented in credit union memberships, and more than half of adult members have aged beyond their prime borrowing years. With membership growth slowing and only five percent of adult members entering prime borrowing years, there are very few young members to sustain credit unions in the future.”
- “Stagnant membership growth is causing thousands of credit unions to shrink. More than one-third of all credit unions are losing shares; more than one-third of all credit unions are losing loans; nearly half of all credit unions are losing assets. And all credit unions’ return on assets is the lowest in 10 years. These negative trends may seem to contradict the positive reports NCUA released with overall year-end averages. But looking beyond those averages, most individual credit unions – including the vast majority of small and mid-sized credit unions – are either shrinking or limping along with growth in the low single digits.”
- “Regulatory initiatives to increase potential membership are a good start, but not enough. Credit unions now have greater potential than ever

to grow membership. But while larger fields of membership open the door to new members, they don’t guarantee it. Many credit unions are finding it very labor-intensive and time-consuming to reach out to entire communities or underserved areas. Regulators and examiners can be very helpful by carefully examining the Business Plan when each application is reviewed, making suggestions on successful outreach strategies, and preparing each credit union for the enormity of the task so they don’t get discouraged.”

- “While many credit unions struggle to serve everyone in their fields of membership, small credit unions are struggling to survive. Each year, we’re losing more small credit unions through mergers and liquidations. Last year, 288 went out of business – over 6 percent of small credit unions. When small credit unions fail, there are often several underlying factors: lack of training, lack of a strategic plan, and lack of internal controls. And the most

common reason: not enough services to meet members’ needs.”

“As regulators,” Matz related, “our safety and soundness mission is clear: We need to do everything we can to encourage all credit unions to offer innovative services, find new sources of loan demand, generate stronger earnings and build assets.” Sharing her final observation, Matz concluded that regulators are well positioned to help each other achieve that mission:

- “The dual chartering system gives us the opportunity to share innovations. State regulators tell me that they have learned from NCUA, and we at NCUA have adopted best practices from state regulators. If we continue an open federal/state dialog, we can address all of the current threats to credit unions, and develop initiatives that will help credit unions grow even stronger in the future.”

Board Member Matz’s presentation to the State Regulators’ Conference, is available at http://www.ncua.gov/news/speeches/speeches_matz.html



Denver, Colo., April 5, 2005 – NCUA Board Member Debbie Matz with NASCUS Chairman Roger Little and NASCUS CEO Mary Martha Fortney at NCUA’s 27th Annual State Regulators’ Conference.



About Investments

Using CD finders: Keep it simple and safe

To help locate certificates of deposit (CDs), credit unions may rely on the services of CD finders, web-based listing services and others to provide information about rates, terms and issuers. Because they are information providers, CD



finders are not subject to federal or state securities registration laws and typically receive little or no regulatory oversight. If using an unregistered individual or firm to locate CDs, ensure the funds remain under the credit union's control and are never handled by a finder. While a CD finder may help locate an attractive CD, complete the transaction yourself.

Direct CD purchases can be a safe way for credit unions to invest in CDs. In

a direct purchase, a credit union typically wires funds directly to the CD issuer. By doing so, a clear ownership interest in the CD is established, with the credit union's name recorded directly on the books of the issuing financial institution.

Why do direct purchases provide greater safety? First, the issuer and credit union are the only transaction participants. With no 3rd-party (e.g., deposit broker or safe-keeper), there is no outside risk to worry about. Second, in the unlikely event an insured institution (CD issuer) were to fail, with the credit union listed as beneficial owner it is easier for FDIC to ascertain ownership interest in the CD for insurance purposes.

CDs have low credit risk up to the \$100,000 federal insurance limit. However, bad things can happen when

investing in CDs, particularly when third-parties are used to purchase and safe-keep them. For example, Bentley Financial Services Inc. was charged with securities fraud by the Securities and Exchange Commission for selling securities misrepresented as insured CDs to unsuspecting credit unions and banks, which resulted in losses to nearly 100 credit unions. An affiliated company of Bentley acted as safe-keeper for the "fake" CDs.

For additional information, see *NCUA Letter to Credit Unions 01-CU-23*. If a third-party is used to safe-keep CDs, *NCUA Letter to Credit Unions 04-CU-04* provides valuable information about due diligence procedures that can help avoid becoming victim to Bentley type fraud.

PCA reform proposal

continued from page 3

"This reform proposal is consistent with NCUA's steadfast support of PCA as sound public policy. We are working closely with Congress and look forward to continuing to provide guidance on this important issue to credit unions."

"This new PCA reform proposal incorporates changes which I requested in response to concerns I heard from the credit union community," noted NCUA Board Member Debbie Matz. "These changes are intended to ensure that

NCUA's capital evaluation process will be fair and objective for all credit unions, and will permit low-income credit unions to count secondary capital appropriately in the context of their overall risk profiles."

Culminating over a year's work reviewing and analyzing various alternatives to statutory PCA structure, the PCA proposal is available at: <http://www.ncua.gov/ReportsAndPlans/special/special.html>.



Visit the NCUA website

www.ncua.gov

Sign up today for NCUA

Express

E-Subscription Service!

NCUA News National Credit Union Administration

1775 Duke Street
Alexandria, VA 22314-3428

PRESORTED
FIRST CLASS MAIL
POSTAGE AND FEES PAID
NCUA
PERMIT NO. G-88